



## CONNECTICUT BANKERS ASSOCIATION

March 1, 2022

To: Members of the Banking Committee  
From: Tom Mongellow, Art Corey (860-677-5060); Fritz Conway (860-229-0301)  
Re: House Bill 5220, An Act Concerning Obligors

Position: Support

H.B. 5220 would clarify the circumstances under which Connecticut's lending limits law would apply to guarantors and indemnitors of loans made by Connecticut banks to consumer and business customers. This would bring state law and regulation into parity with federal regulations for national banks.

By way of background, Connecticut law establishes limits on the total amount a state-chartered bank may loan to any one obligor (i.e. a borrower). The purpose of these limits is to ensure that a bank is not taking on too much risk, by lending large amounts to individual borrowers.

The Department of Banking has historically interpreted the lending limits law as applicable not just to those who are primarily liable for the payment of a loan, but also to a loan's guarantor. Guarantors guaranty payment of a loan made to the primary obligor if the obligor defaults on the loan. (Indemnitors are similar and may also become liable for the payment of a loan.) While we believe this interpretation is correct, the law puts Connecticut banks at a disadvantage with respect to competing with federally chartered banks.

Under the federal lending limits law applicable to federally chartered banks, guarantors are only considered borrowers when certain conditions are met. Those conditions include circumstances where (1) the guarantor receives a direct benefit from the loan's proceeds or (2) where the guarantor and borrower are involved in a "common enterprise", as defined in the federal regulations (e.g. when the guarantor is involved in the control of the obligor's business and receives or contributes funds to such business).

Connecticut banks should be able to exclude guarantors and indemnitors from the Connecticut lending limits law in the same manner that federally chartered banks can under the federal law. The federal lending limits regulations adequately balance the risks associated with larger loans involving guarantors, by subjecting guarantors to the lending limits only when the conditions described above are met.

H.B. 5220 will align Connecticut law with the federal law and achieve the same regulatory risk management goals.

We would like to note that we appreciate the Department of Banking working with us in drafting the language contained in H.B. 5220.

For the above reasons, we respectfully ask that the Committee vote in favor of H.B. 5220, and put state-chartered banks on a level playing field with federally chartered banks.